

Summary of Presentation and Responses to Questions
Dean Carlson, Former Secretary of KDOT
Blue Ribbon Panel Meeting
April 28, 2003

Mr. Dean Carlson, former Secretary of the Kansas Department of Transportation (KDOT) and former Executive Director of the Federal Highway Administration, met with the Blue Ribbon Panel to provide information about credibility, accountability, and efficiency as they pertain to Departments of Transportation.

Secretary and Management

The Secretary of Transportation in Kansas is a cabinet level position, which is appointed by the Governor and confirmed by the Senate. Mr. Carlson said that during his tenure as Secretary, he had a tremendous amount of authority and flexibility, which he felt could be unique among the 50 states. The Secretary is authorized to purchase and convey right of way, sell bonds with little oversight, and enjoy a great deal of autonomy. As Secretary, Mr. Carlson decided which projects would be constructed and committed to transportation projects costing upwards to \$50 million or more.

During his tenure, Mr. Carlson felt little pressure from the Governor or members of the General Assembly to influence project selection or policy. The General Assembly, by legislation, would authorize a specific dollar-identified bonding program. The Department of Transportation was then empowered to sell the bonds to construct needed projects.

Commission versus Governor-appointed Secretary

In response to the panel's request for Mr. Carlson to compare a Governor-appointed Secretary to a Commission form of organization, Mr. Carlson said in his experience the success of Departments of Transportation depended more on the relationship between the Director and those to whom he reports than whether that person was appointed by the Governor or selected by a Commission. He felt that either structure could be successful.

Mr. Carlson added that he had recently seen a long-term chief executive officer of a Department of Highways released because he honestly told his governor that a particular project could not be built within the time frame the governor desired. In that respect, he felt it would be advantageous to have insulation between the political process and the Director, which is afforded by a Commission. Mr. Carlson said that a Commission appointed by the Governor and confirmed by the Senate would generally result in political credibility. He said a Commission form of organization would also reduce management turnover, noting that frequent turnover can result from the highest non-political appointed positions operating the organization with little oversight.

However, he emphasized that his experience as a Secretary appointed by a Governor had been very positive.

Scope of Responsibility

Mr. Carlson said the scope of responsibilities of MoDOT and the Missouri Highways and Transportation Commission were generally typical in comparison to other states; however, some of the states have more modal operational authority than MoDOT. He noted that Illinois DOT operates the smaller airports, as do many other states. Some states also own and operate railroads.

Mr. Carlson reported that a major difference in scope of responsibility between Missouri and other states is that Missouri has a very extensive highway system, with a much higher proportion of local roads than other states. He said this has to result in funding and maintenance challenges.

MoDOT Reputation

Mr. Carlson said MoDOT enjoys an excellent reputation among its state counterparts. He said this reputation had been in place for many years with former Missouri DOT Chief Engineers Rex Whitton and Bob Hunter providing strong leadership. Three MoDOT Chief Engineers served as presidents of the American Association of State Highway and Transportation Officials, which is unusual compared to other states.

Mr. Carlson said while engineers are conservative by nature, MoDOT has been innovative through its use of new pavement materials (Super pave), and pursuit of legislation to allow design/build projects.

Centralization versus Decentralization

KDOT has six districts headed by a District Engineer. The District Engineers report to KDOT's operations division. Each district has from four to six areas headed by Area Engineers. Area Engineers are responsible for construction and maintenance in their respective areas. The District is responsible for construction, maintenance, and some administration. All planning, design, and right-of-way acquisition is centralized at the headquarters level.

Mr. Carlson reported that Texas DOT has 26 districts and is completely decentralized. California is also decentralized with the local areas having more influence on the transportation program than any other state. In California highway improvements cannot be built through a municipality that has not passed a resolution approving the project. Mr. Carlson said that generally, the larger the state, the greater the amount of delegation to the field. He felt Missouri was typical in its centralization/decentralization approach.

Outsourcing

Mr. Carlson reported that 75 percent of KDOT's design work is performed by consultants. He personally felt that the optimum percentage for consultant work should be between 50 and 60 percent. He said, however, that DOTs should not staff up to the level required to meet the demands of peak programs.

Design/Build

Mr. Carlson said he favored the design/build concept where it is needed. He said KDOT does not construct "turn-key" projects, but uses incremental projects for culverts, major bridges, grading, and paving. This strategy, he said, allows small contractors to be successful businessmen and results in good competition.

Mr. Carlson reported that approximately 30 states currently use design/build. He said states would not want to use this process on every project, but should have the authority to use it when appropriate.

Successful Funding Proposal

Mr. Carlson advised that he was Secretary of KDOT during the 1999 proposal for a ten-year comprehensive transportation program. **He said they enlisted as many stakeholders as possible and broadened their scope to include modes of transportation other than highways.** He said the proposal resulted in \$2.6 billion of new revenues over eight years, through bonding and increased taxes. He said they worked for two years under an interim plan while developing the eight-year transportation plan that was authorized in the 1999 legislative session. **He said they identified projects, but not the scope of the projects.** The bill gave them 4-cents per gallon in motor fuel tax (2 cents in 1999, 1-cent in 2001, and 1-cent in 2003). He said they also received approval of an expansion up to 12 percent of the state sales tax in 2005, which would be in addition to the ¼ percent sales tax currently dedicated to KDOT. He said essentially they would be getting 17 or 18 percent of the sales tax for the transportation program. The legislature also authorized \$995 million in bonding authority through the use of 20-year highway revenue bonds. Going into the future, debt service will represent 10 percent of KDOT's revenue. See Attachment A, Exhibits 1 and 2 for KDOT fund revenue sources and expenditures and motor fuel tax information.

Means leading to successful increase in transportation funds.

Mr. Carlson said Kansas has an organization called Economic Lifeline, which is comprised of the Kansas Contractor's Association, Kansas Good Roads, Kansas Aggregate Producers, Kansas Concrete Pavement Goods, Kansas Asphalt Pavement Goods, and other like entities. He said that group was very effective in generating grassroots support for the proposal.

The Governor decided that he wanted to be connected with the 1999 transportation program and established a 28-member T-2000 group comprised of representatives of the state House and Senate, county commissioners, and city managers. The chair had been a lobbyist for many years. Their charge was to determine what people wanted without financial constraints. Twelve meetings were held around the state.

The T-2000 group reconvened prior to the 2002 legislative session to address legislative diversions of KDOT sales tax transfers. The group determined that one of the following three things should take place in the event of sales tax diversions: (1) eliminate funding for counties and cities; (2) eliminate repair of damaged bridges; or (3) eliminate expansion projects. He said as a result they not only did not lose the sales tax, but also received a 2-cent increase in motor fuel tax plus increases in vehicle registration fees.

KDOT Program Priorities

Mr. Carlson explained that KDOT's funding priorities are as follows:

1. Payment of debt service.
2. Transfer of funds to other state agencies that support the road program (for example, collection of fees).
3. Agency operations – expenses necessary to operate KDOT.
4. Preservation – Resurfacing Program.
5. Modernization – Rebuilding roads and priority bridges on the same alignment. This is the major part of KDOT's program.
6. Expansion – This is the smallest part of KDOT's program.

See Attachment A, Exhibit 3 for relationship between priorities, "Comprehensive Transportation Program "Building Blocks."

Mr. Carlson said that if the KDOT program had to be cut, he would recommend eliminating the expansion projects in order to continue preservation and modernization of the roads. He said this is not a popular position, but it is necessary.

Inflation and Change in Project Scope

Mr. Carlson said KDOT had received a funding increase in 1989 at a time when it was barely able to do maintenance. In developing the program, KDOT had used a 5.2 percent per year inflation factor over the eight-year program, which resulted in projects in the out years being 40 percent higher.

Mr. Carlson said KDOT's program focused on substantial maintenance and included the following: (1) major resurfacing, (2) reconstruction of the existing roadways, (3) priority bridges, and (4) system enhancements (expansion projects). The system enhancements were limited to bypasses, corridors, or interchange additions. System enhancement projects were requested by the cities and counties. They were rated by KDOT on an objective criteria (80%) and economic potential (20%). He said because they did not have detailed information regarding the system enhancement projects, they added an additional factor of 20 percent to address changes in scope. He said engineers

who made those estimates were criticized for being too conservative, but that strategy was far better than not having enough funds to cover the actual costs.

Mr. Carlson said he suspected that Missouri's Fifteen-Year Program suffered from both inflation and changes in project scope.

Techniques for Dealing with the Public and Maintaining Support

Openness and honesty - Mr. Carlson said he supported openness and honesty in dealing with the public, the legislature, and the Governor. In addition, there has to be some outreach. He emphasized to KDOT employees that they represented KDOT wherever they were. He asked them to answer questions on transportation issues with which they were familiar and offer to obtain answers to questions on issues where they were uncertain. *(Senator Westfall concurred with Mr. Carlson's above position regarding openness and honesty, and suggested that wording be incorporated in the panel's recommendations.)*

Public Involvement Personnel in District Offices - In order to improve KDOT's public image, Mr. Carlson assigned public involvement personnel to each of the district offices to provide factual answers to questions from the public. He also increased the public information staff at the headquarters office from two people to six or seven people.

800 Phone Number and Customer Surveys - Another KDOT technique for responding to the public was the installation of an 800 number for citizen telephone inquiries, and a third was use of surveys to determine internal and external customer satisfaction. KDOT's external customer ratings were very good. The internal survey found that most KDOT employees thought their supervisor was the best, but the higher you moved from the employee, the less favorable the rating was, with little support expressed for the Secretary.

Loss of Credibility

Mr. Carlson said KDOT's major funding program was passed in 1989. When he assumed the Secretary's position five years later, the program was on schedule and under budget by 2 to 3 percent, so he did face a lack of credibility issue. He said the credibility that resulted from the success of the 1989 program contributed to a subsequent ten-year program. When he left KDOT, the program was on schedule and on budget; however, the legislature had started to borrow from KDOT's budget, which could put some of the projects in jeopardy.

Mr. Carlson said it appeared that MoDOT's problems began in the mid to late 1980s when the needs of MoDOT's extensive highway system began to outstrip the revenue available to address them. He said while all states had suffered from a changed public attitude that DOTs lacked openness, MoDOT had also suffered from bad project estimates in the 1980s and inadequate funding.

Mr. Carlson emphasized that credibility relates directly to the condition of the roadways. By way of example, he said that Arkansas had issued \$500 million worth of bonds to rebuild its entire Interstate system. He said rather than starting over with a design process and complete reconstruction of the concrete pavement, Arkansas has elected to use an innovative process. This process involves breaking the concrete into pieces, rolling it with an extremely heavy roller, and then applying five to eight inches of asphalt. He said he had witnessed both success and failure with this process. While he was hopeful that this program would be successful, he felt that the Arkansas Department of Transportation was taking a substantial risk. He said if it works, the Arkansas DOT would have a lot of credibility; if it does not, it would suffer from a credibility problem.

Restore Lost Credibility - In order for a DOT to restore lost credibility, Mr. Carlson proposed that a one-year fixed program and a five-year program be developed that people can rely on. The program must include factors for inflation and scope change. He said it is critical to carry out the programs on schedule and within budget. He said he did not think it would be possible to regain credibility without some passage of time during which success is demonstrated. In addition, Mr. Carlson said the DOT must enlist stakeholders to convince the public that the DOT is, in fact, doing what it said it would do and will continue to do so.

Accountability and Credibility

Mr. Carlson offered the following as means to be accountable and retain credibility.

Never Over-Promise – Do What You Say - Regarding credibility issues, Mr. Carlson said to never over-promise, to say what you can do, and then be sure it gets done. He felt that governors and commissions should hold DOT's accountable for what they say they can do.

Performance Management Systems - In addressing issues pertaining to accountability and credibility, Mr. Carlson said FHWA had encouraged the use of pavement management systems and bridge management systems and is currently encouraging the use of asset management systems. He said selection of projects to be included in KDOT's Statewide Transportation Improvement Program resulted from ratings and outcomes of the pavement management and bridge management systems. The District Engineers select the resurfacing projects on an annual basis. Mr. Carlson said KDOT's goal was to have 85 percent of its road in good condition or above and 90 percent of the interstate in good condition or above.

Mr. Carlson said he had reviewed Missouri's performance measures and goals and they appear to be very similar to, but more detailed than, those of KDOT. He cautioned that the additional detail would result in a challenge to keep the information updated on a timely basis. Mr. Carlson said that goals and performance must be part of an iterative process in order to address changes in condition.

Base Program on Needs - Mr. Carlson said to have the most efficient highway program, you must set the program based on needs and not a set allocation of funds to specific locations.

Recommendations

Mr. Carlson recommended the following:

- **Inspector General** - Mr. Carlson said the internal activities of issuing accountability reports are often suspect, so there needs to be an Inspector General type of individual. At KDOT, the Inspector General worked for the Secretary. This allowed KDOT to use the Inspector General's talents for investigations, as well as audits. Mr. Carlson said the KDOT Inspector General had been helpful in the discipline and/or discharge of employees.
- **Legislative Post Audit Review** - Kansas has a legislative post audit group, supervised by a Joint Committee of the Legislature, which reviews many areas of state government. This group is helpful in reviewing KDOT's processes and reporting back to the legislature thereon. This group also does a six-year sunset audit of each state agency to determine whether the agency should be kept or eliminated.
- **Focus on Existing System** - Mr. Carlson said KDOT's top priority was to maintain its existing system. He said a DOT cannot build new roads at the expense of the existing system. He said it would not be possible to gain credibility if its roads are falling apart. He recommended that Missouri increase its focus on taking care of its existing system.

Additional Questions

In addition to the information topics covered by Mr. Carlson in his presentation, as summarized above, Mr. Carlson provided the following information in response to questions from the panel members.

Koch Performance Roads

In response to Senator Westfall's request for Mr. Carlson's opinion regarding Koch Performance Roads, Mr. Carlson said that while Koch was a Kansas based company and the second largest privately owned company in the world, Kansas DOT did not use its product. He said the concept to build and warranty a road is a good one, and that Koch had received an award in New Mexico.

Mr. Carlson explained that in order to fulfill a promise to construct a 140-mile roadway made to New Mexico voters by a successful candidate for Governor, the New Mexico DOT Executive Director had agreed to use Koch Performance Roads for the project, which was financed by GARVEE bonds. The additional cost to cover the

warranty was \$80 million. Mr. Carlson expressed concern that because Koch sets a performance standard and maintains at a level just above that standard, at the end of the maintenance period, the road will need to be reconstructed.

Mr. Carlson said that his experience leads him to believe that no asphalt pavement will maintain its standards for longer than eight to ten years, and, therefore, such projects will require interim rehabilitation. He noted that the New Mexico project also included a six-foot bubble asphalt median. He expressed concern that the six-foot median would not provide an adequate level of safety.

Kansas Turnpike Authority

Mr. Carlson explained that the Kansas Turnpike Authority was not under the authority of KDOT, but rather was under a five-person board with the Director being one of the five board members. Mr. Carlson said a separate organization for turnpike authorities is typical for states that have them.

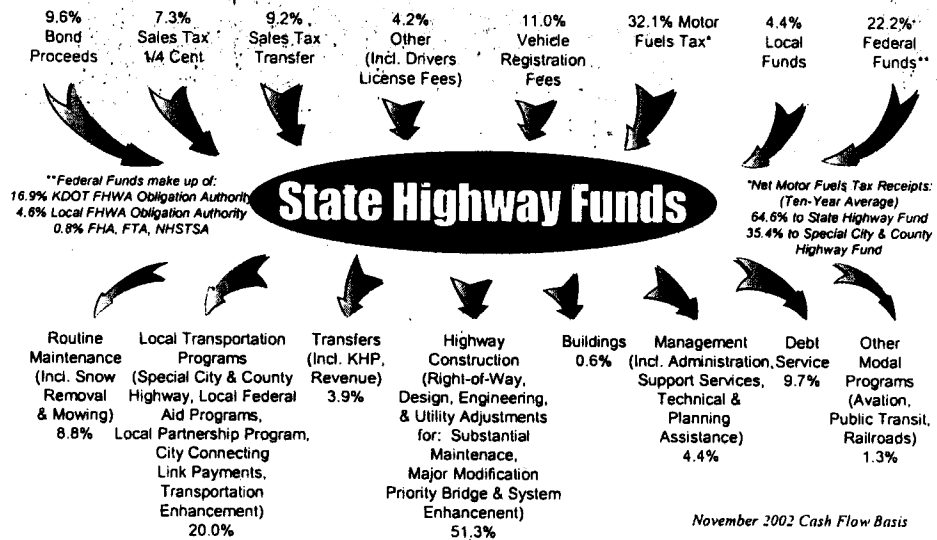
Tolls

Mr. Carlson said while tolls can be put on bridges on the interstate system, he did not feel there would be political inclination to allow tolls to be used to reconstruct the existing interstate system. He said it was hard to collect sufficient revenue from tolls to pay the complete cost of a facility plus the debt service. He said in Kansas, motorists have been willing to pay approximately 3.7 cents per mile for tolls, which equates to 80 cents per gallon of motor fuel tax. He also noted that attempts have been made to give the toll facility in Kansas to KDOT, but Mr. Carlson said he opposed such efforts because at this time it needs major reconstruction.

Funding for Local Roads – Attempt to Return Roads to Local Areas Unsuccessful

Mr. Carlson said that 40.5 percent of transportation revenue flows to the cities and counties, leaving 59.5 for the state. The local areas also have the authority to enact local sales tax for transportation purposes. There are 9600 miles in the state and federal highway systems in Kansas. Mr. Carlson said he had attempted to give some state roads back to the local areas, but he reported that such an effort is generally unsuccessful.

Kansas Department of Transportation Fund Sources and Disposition FY 2000 - 2009



Revenues : \$13.5 billion

Expenditures: \$13.6 billion

Motor Fuels Tax

Gas: 23 cents

Diesel: 25 cents

(per gallon as of July 1, 2002)

64.6% : State Highway Fund

35.4%: Special City and County Highway Fund

On July 1, 2003, motor fuels tax for both gas and diesel will increase one cent

•This is the final penny of the 1999 legislation



The MFT shown does include the increase from HB 3011

FYI FOR SPEAKER:

1 cent raises approximately \$18 million (with no SCCHF split)
(CHP increase was 7 cents)

	18 cents at end of CHP/Interim
2 increase	20 cents July 1, 1999 (FY 2000)
1 increase	21 cents July 1, 2001 (FY 2002)
	23 cents July 1, 2002 (FY 2003) 2 cent increase
1 increase	24 cents July 1, 2003 (FY 2004)

4 cent increase HB2071

2 cent increase HB3011

